

***2.2 IRVINGTON DEVELOPER SELECTION**

Consideration of Preferred Developer for Irvington Unified Redevelopment Area

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Executive Summary: At its May 28, 2002 meeting, the Redevelopment Agency directed staff to issue a Request for Qualifications (RFQ) listing certain redevelopment objectives and selection criteria and to undertake an expedited selection process with community input to bring back a recommendation of a preferred developer in September 2002. This reports summarizes the recommendation that Santa Clara Development Company become the preferred developer for the Irvington Unified Redevelopment Area. Santa Clara possesses extensive development experience with infill locations, including sites in Fremont such as The Old School site in Mission San Jose and a recent Newark project that required regulatory agency approvals for remediation of hazardous materials. Santa Clara has demonstrated ability and willingness to approach the Irvington site in a way that is sensitive to community input, urban design and neighborhood considerations, and market conditions. Santa Clara plans to execute a high quality retail project with a design and tenant mix that attempts to create a gathering place for Irvington, with the balance of the site developed with an attached residential product like townhouses or condominiums. While the Agency received several outstanding responses from qualified developers, staff believes that Santa Clara offers the most potential to meet the redevelopment objectives for the site, including high quality design and pedestrian orientation. Therefore, staff recommends that the Agency adopt a resolution directing staff to enter into an Exclusive Right to Negotiate (ERN) agreement for a period of 270 days during which time the developer and Agency staff will attempt to:

- Seek community input into the project.
- Develop an environmental remediation strategy approved by the regulatory agencies.
- Evaluate and to the extent possible secure retail tenant interest.
- Develop a site plan for the project.
- Negotiate the business terms of a Disposition and Development Agreement (DDA) that will govern the transaction between the Agency and developer to cause the development to occur.
- Prepare appropriate California Environmental Quality Act (CEQA) and Community Redevelopment Law (CRL) documentation for consideration by the Agency Board in connection with its consideration of a successfully negotiated DDA.

BACKGROUND: On March 28, 2000, the Agency Board designated specified parcels in the Irvington Redevelopment Project Area as a Unified Redevelopment Area (Site). The Site is generally bounded by Fremont Boulevard, Bay Street, Irvington Avenue and Trimboli Way. In so designating the properties, the Agency determined that it was in the best interests of the Project Area that the properties be developed in a unified manner, and it also authorized the issuance of a Request for Proposals (RFP) soliciting owner and developer interest in redeveloping the Unified Redevelopment Area.

On June 5, 2001 the Agency Board adopted a resolution identifying the City-Core proposal as the preferred development proposal after review of developer responses to the RFP. The preferred development proposal included a proposed Whole Foods Market, approximately 30,000 square feet of additional retail space and 60 housing units. After receiving an estimate of the necessary Agency investment in the proposed project, the Agency Board authorized the Executive Director to enter into an ERN with City-Core and directed staff to begin the process to acquire specified privately owned properties in the Unified Redevelopment Area, including appraisal and environmental investigation of the properties and preparation of a Relocation Plan for existing tenants.

On February 26, 2002, staff returned to the Agency Board for direction on next steps after learning that Whole Foods would not participate in the proposed redevelopment project. Staff presented a comprehensive update on the status of the project and factors to consider in continuing an active role in revitalization of the site. The Agency Board adopted a resolution directing staff to continue to work toward redevelopment of the site and to return to the Agency Board by May 2002 with a recommendation regarding whether to engage in a new process to solicit owner and developer proposals for the redevelopment of the site, and/or pursue property acquisition on the site. It also rescinded the authorization of the Executive Director to enter into an ERN with City-Core.

At the May 28, 2002 meeting, staff presented updated information on the environmental condition of the site, interest of specialty grocery store tenants in the site, and analysis of other development options for the site, including options with a larger residential component than the City-Core proposal. Staff estimated the range of total investment necessary to undertake redevelopment to be \$15-\$17 million with an approximate \$2 million contingency. Redevelopment of the site would, by itself, produce a stream of future tax increment revenue, if reduced to one present lump sum, that would equal approximately \$2 million. Redevelopment of the site also offers other benefits. It would eliminate current blighting conditions on the site, including the abandoned gas station, outdated buildings and incongruous uses. It would give the Agency control over a key site that may launch redevelopment of several opportunity sites immediately adjacent to property. After a review of other possible investments in the area, staff concluded that the site was the key site in terms of stimulate additional investment in area, which was consistent with the community's sense of the site's importance at a public meeting held in April 2002 to collect input on different development options.

On the basis of the costs, benefits and risks of proceeding with redevelopment of the site, the Agency Board directed staff to continue working toward redevelopment of the site, including environmental investigation, development of a Relocation Plan for existing tenants, and re-initiation of the property acquisition process for the site. The Agency Board also modified the Unified Redevelopment Area to include two adjacent properties on Bay Street (4024 Bay Street and 4032 Bay Street) on the basis that control of the properties would improve the ability of the Agency and the selected developer to meet the redevelopment objectives for the site. As a result of this action, the Irvington Unified Redevelopment Area now encompasses all of the block bounded by Fremont Boulevard, Bay Street, Irvington Avenue and Trimboli Way, with the exception of the historic Clark's Hall building (Bay Street Coffee Company building) on the corner and the adjacent retail building containing Armadillo Bay, Bay Street Salon and Lavender Bay.

Finally, at its May 28, 2002 meeting, the Agency Board directed staff to issue a Request for Qualifications (RFQ) listing certain redevelopment objectives and selection criteria and to undertake an

expedited selection process with community input to bring back a recommendation of a preferred developer in September 2002.

While the site plan and design of the project will be developed after the RFQ process is completed (during the ERN process), the Agency provided the following objectives to developers in the RFQ:

- Commercial orientation toward Bay Street and Five Corners;
- Retail and restaurant uses as a focus of commercial portions to create a pedestrian-oriented environment on Bay Street;
- At least one sit-down restaurant;
- Housing units are desirable;
- In addition to on-site parking meeting zoning requirements for the project itself, a minimum of 37 on-site parking spaces for existing Bay Street businesses per zoning standards, with additional on-site public parking desirable;
- High quality design and materials that address the historic buildings in the area; and,
- Spurring of additional private investment and/or cooperation of property owners in redevelopment of Bay Street properties.

The criteria for selection of a preferred developer for the site include:

- Interest in and vision for Irvington and the redevelopment project;
- Demonstration of relevant project experience (including Brownfield development, Redevelopment, mixed use projects, infill projects, integration of historic and existing buildings in new development, and working with community interests);
- Strength of references;
- Evidence of financial resources and access to capital;
- Acceptance of the Agency's draft ERN conditions; and,
- Preference to a proposal from a property owner within the site if proposal qualifications are deemed equal in other respects, as discussed below.

The staff panel for the selection process included the Redevelopment Agency Director, the Economic Development Director, the Planning Manager, and the Redevelopment Project Manager for Irvington.

In addition, the Executive Director selected a community panel of three members to assist with the development of the RFQ document and evaluation of the developer submissions and interviews. Each member is a stakeholder in the redevelopment project and brings a different perspective to the panel. Todd Hamor is the owner of the Bay Street Coffee Company and an important tenant adjacent to the project. Mark Hirsch brings the perspective of a long-time Irvington business and property owner in the immediate vicinity of the project and President of the Irvington Business Association. Farouk Mattar owns two properties on Bay Street where the Agency hopes the redevelopment project will spur additional investment.

Staff prepared a comprehensive Request for Qualifications binder and executed an expedited selection process. The RFQ binder was previously distributed to City Councilmembers and a copy is available for

public review at the Office of Neighborhoods front desk or web site. The table below summarizes the selection process:

<i>Action</i>	<i>Date</i>
RFQ issued: mailed to 97 firms and email with link to electronic version sent to another 250 industry contacts	June 28
Question and Answer session with prospective developers	July 11
Developer responses due to Agency	July 26
Community panel input provided on developer responses	August 6
Staff selection of finalists based on evaluation of written submissions	August 7
Due diligence of finalists including research on financial and project references	August 7 – 15
Interviews with finalists	August 14 – 15
Community panel input provided on developer interviews	August 15
Staff selection of two final candidates	August 21
Follow-up interviews and due diligence of final candidates	August 21 – September 4
Community panel input provided on final candidates	September 11

Discussion: Eleven developer teams submitted a response to the Request for Qualifications. The responders included:

- CIM Group
- Blake Hunt Ventures
- Santa Clara Development Company
- Barry Swenson Builders
- Renova Partners in a proposed partnership with TMG Partners
- Legacy Partners
- Shea Properties
- The Olson Group in a proposed partnership with Fancher Partners
- City-Core Development
- Regis Homes
- Pulte Homes in a proposed partnership with Couch Properties

Both the staff panel and community panel reviewed the developer submissions (available for public review at the Office of Neighborhoods front desk), and on the basis of the team's relevant experience, interest and vision statement for the project, sought a natural break for a short-list of firms who demonstrated the most impressive qualifications. The staff panel ultimately selected six firms for interviews:

- CIM Group
- Blake Hunt Ventures
- Santa Clara Development Company
- Barry Swenson Builders

- Renova Partners in a proposed partnership with TMG Partners
- Legacy Partners

Staff conducted the interviews with the community panel present and received input from the panel after the interviews.

From the short list of six firms, Santa Clara Development and Blake Hunt Ventures emerged as final candidates based on evaluation of their qualification as demonstrated through their written submission, interview and reference checks, and additional due diligence work by staff on these firms. The additional due diligence included analysis of each firm's financial capacity by the Agency's economic consultant, two additional interviews between staff and the developers and an additional information request, designed around issues that had emerged from the RFQ submissions and initial interviews. Staff met with the community panel at the conclusion of the due diligence work and presented its assessment of each firm. The community panel acknowledged the tradeoffs with each firm. Two community members would be inclined to select Blake Hunt Ventures on the basis of its more extensive retail development experience. The third member expressed satisfaction with both candidates.

Both Santa Clara and Blake Hunt are capable of executing the Redevelopment project. They are financially capable. They have developed difficult sites, including sites with environmental contamination. The senior principals, Mark Robson in the case of Santa Clara and Brad Blake in the case of Blake Hunt, have expressed strong commitment to the project and would seem to work well with staff, the community and City Council. They both have a sufficiently progressive approach to community input and anticipate a considerable amount of outreach.

About Santa Clara Development: The firm was founded in 1989 and has completed numerous residential projects ranging from high-density condominiums to townhouses to single family homes to a mixed-use project with retail. Among its seven projects completed or underway in Fremont are its Canyon Heights project, which involved the preservation of a historical home and granary, and its recently entitled 192-unit Warm Springs project. A project underway in Newark required regulatory agency approvals from the Alameda County Water District (ACWD) and the Regional Water Quality Control Board (RWQCB). The Old School project in the Mission San Jose district demonstrates Santa Clara's relevant project experience for the Irvington project. The Old School is a mixed-use project with 10,000 square feet of retail, live/work lofts and single-family homes. The project involved the rehabilitation of a historic building and numerous other challenges such as grade changes and parking. The design of the project, with a courtyard around a large old cedar tree and connections between the residential and retail, earned the project a Gold Nugget Grand Award from the Pacific Coast Builders Conference and BUILDER magazine for excellence and innovation in addressing complex design/build issues. The tenants of the project will include Starbucks, Quizno's, Mailboxes Etc., and Nina's Fine Dining.

About Blake Hunt Ventures: The firm was founded in 2000 and has completed one major retail development project and is engaged on several others. Its principals, Brad Blake and Jerry Hunt were the CEO and COO respectively of Western Properties Trust, a real estate investment trust which developed and owned retail properties, prior to forming Blake Hunt when Western Properties merged with another firm. Blake Hunt completed Plaza Escuela, a major downtown retail project in Walnut Creek that was initiated as Western Properties, and is under construction on another major retail project in Walnut

Creek directly adjacent to Plaza Escuela. Plaza Escuela is a 156,000 square foot retail development with Andronico's, The Container Store, Men's Wearhouse and numerous other "credit" tenants. It features structured parking and is designed around a new road that was developed through the site. The adjacent project under construction, Olympic Place, will have 147,000 square feet of retail and office space anchored by Century Theaters and Cost Plus World Markets. Blake Hunt is the selected developer for two major retail-oriented Redevelopment Agency projects, one in San Jose (Story and King Redevelopment) and one in Redwood City (On Broadway Redevelopment Block). The firm is developing a project currently in the entitlement process in Danville that will include a commercial and residential component, and another project in San Mateo on the site of the Bay Meadows racetrack with Equity Office Properties that includes a 180,000 square feet office and a 85,000 square feet retail component.

The full development teams proposed for the Irvington project are:

SANTA CLARA TEAM

Developer: Santa Clara Development Company (retail and residential)

Architect: ELS Architecture and Urban Design

Landscape architect: SWA Landscape and Urban Design

Attorney: Peter Gerstman

Civil engineer: Peter McMorrow and Don Utz with Civil Engineering Associates

Contractor: Sun Lakes Construction Co.

Retail leasing: John Machado with Colliers

Equity partner: internal

Debt financing partner: Bank One Arizona

BLAKE HUNT TEAM

Developer: Blake Hunt Ventures (retail) and Braddock & Logan (residential)

Architect: Baldauf Catton Von Eckartsberg (BCV)

Landscape architect: David Gates and Associates

Attorney: Morgan, Miller and Blair

Civil engineer: to be defined

Contractor: DPR Construction

Retail leasing: John Cumbelich with John Cumbelich and Associates or Carole Gilbert of CGI

Equity partner: likely to be Bay Area Smart Growth Fund (through Pacific Coast Capital)

Debt financing partner: to be defined

The selection of either developer team as the preferred developer presents a tradeoff in terms of strength of developer team, vision, and approach to the project. Santa Clara is primarily a residential builder with an outstanding track record and one mixed-use project under its belt. Santa Clara augmented its team with a well-regarded retail architect and leasing broker in its proposal for the Irvington project. The team has shown intense interest in the site, which goes back to its response to the previous RFQ/RFP, and it

possesses a strong initial vision for the site. The vision consists of neighborhood serving retail development on the north half of the site, with about 20,000-30,000 square feet of development anchored by a small anchor such as a drug store or small grocery and several restaurants. This development would be situated in an arc around the historic Clark's Hall building at the corner of Bay Street and Fremont Boulevard with a public plaza in front of the retail and parking behind it, along Trimboli Way, and the possibility of a small component of residential over the retail. A road or private entrance would divide the South half of the site, and Santa Clara would build medium-density (18-25 du/acre) attached for-sale housing in either a townhouse or condominium format. While the team's initial vision is formed, it would approach site planning in a collaborative effort with the community and staff.

Santa Clara would approach the retail leasing by designing an appealing site plan with input from the community and then aggressively pursuing a list of target tenants through its leasing agent, John Machado of Colliers International. John has been named Retail Broker of the Year in Silicon Valley and is now an executive with Colliers. His focus is on neighborhood-serving retail tenants, and he has done leasing for neighborhood centers in downtown areas of Los Gatos and Los Altos. To generalize the team's approach, Santa Clara would lead with a high quality design, and recruit tenants after the design is formed and as they develop the project.

Blake Hunt is an accomplished retail developer that would augment its team with a housing developer, Braddock & Logan, and a well-regarded retail architect and retail leasing agent. Braddock & Logan primarily builds single-family homes and attached townhouses, although it has built apartments, and it has completed several projects in Fremont such as Prescott (off Dusterberry), which is currently selling, and Cherry Lane. Blake Hunt learned of the Irvington opportunity through the RFQ and thinks the site is a good retail site in an urban area, consistent with its business strategy. Blake Hunt envisions a retail-driven project focused on the north half of the site that is defined by what anchors and sub-anchors it can secure for the project. The south half of the site would be attached housing, probably for-sale, to be defined after the retail portion has been maximized. Braddock & Logan would serve as advisors to Blake Hunt during the predevelopment phase of the project, after which it would enter into a transaction with Blake Hunt to build the residential.

Blake Hunt's approach to retail leasing would be to conduct an extensive survey of potential retail tenants over a six-month period to gauge interest in the project and, with potential anchors, to seek letters of intent. Between Blake Hunt and its retail leasing agent, either John Cumbelich of John Cumbelich and Associates or Carol Gilbert of CGI, the team appears to have extensive retail relationships with which it would define the scope of the retail component. To generalize this approach, Blake Hunt would lead with retail tenant interest in the site and fill in the design and financing as the project unfolds.

While both teams possess the necessary qualifications to execute their respective approaches and redevelop the site, staff believes the Santa Clara team and approach to the project has the potential to meet the redevelopment objectives for the site. The strengths of the team are:

- Fully assembled development team
- Single decision-maker with stake in Fremont community
- Internally provided equity for the project and strong financial capability

- Demonstrated commitment to quality design and materials
- Experience with developing in a historic context (i.e., Old School project)
- Strong retail connections to South Bay retail community
- Experience with local environmental regulatory agencies (i.e., Newark project)
- Completed mixed-use project
- Strong initial vision for site and genuine interest
- Experience and understanding of Fremont market conditions

The Redevelopment objectives for the Irvington site require a developer with extraordinary creativity and determination if they are to be met. With the estimated Agency investment required for the project, the Agency expects no less than a first-class project that defines Irvington. The project needs to tie into the historic buildings in the area, bring in high quality retail tenants and restaurants to create a lively place, successfully mix residential with commercial uses, and provide additional parking for existing Bay Street businesses. And, despite being a relatively small site, it needs to create a catalyst for additional development along Bay Street and on other sites near the property. Assumed with these objectives are perhaps the more obvious objectives of working to obtain regulatory approvals from the environmental agencies and working with the community and the adjacent business and property owners on other site planning and design issues.

Santa Clara's team and approach can meet these objectives. With internally provided equity and a single decision-maker, the firm can be more flexible and creative than a developer that has to line up partners in the form of equity partners and credit tenants. The team will focus on restaurant uses and design elements like a public plaza to create a distinctive, lively place. The team can build both the retail and residential itself, in a quality fashion, as it has proven with the Old School site. Finally, the team knows the Fremont community and recognizes the important role community members and the Agency will have in making the project the defining project for Irvington. Its Fremont projects, and in particular the Old School project, are all well-designed, high quality projects that reflect the creativity and determination a developer needs to bring to the Irvington site.

The challenge for any developer for the project is being able to achieve a high quality tenant mix. To achieve such a mix, the developer needs to attract tenants with excellent merchandising, customer service and pricing, and design a good site in terms of access, parking, landscaping and other amenities. But at some level, the developer is not responsible for bringing the customers that are ultimately needed to support a high quality tenant mix. With any developer for the Irvington site, there is the risk that high quality tenants may decide not to come to Irvington, despite the developer's efforts, because they do not believe the site will produce the customers needed to support their businesses.

The developer and Agency can take some measures to mitigate the risk of not achieving a high quality tenant mix with the redevelopment project. Santa Clara recognizes that the retail component drives the project, and has responded by enlisting a highly regarded retail architect for the site plan and a highly regarded retail broker. It also understands that the Agency will press them to define and expose the retail opportunity to a broad range of high quality tenants, and it is prepared to aggressively pursue the retail development opportunity. An aggressive retail leasing plan will be a deal point to reaching the Disposition and Development Agreement (DDA) that will govern the transaction between the Agency and developer to cause the development to occur. And, to the extent that landing high quality tenants

comes down to rents and site plan features, the developer and Agency can obviously work to address these issues through the DDA and the final price of the land, which will reflect rents and costs of construction.

However, notwithstanding the developer's aggressive retail leasing plan and the Agency's investment in the project, a risk remains that Santa Clara or another developer may not be able to achieve a high quality tenant mix. In the event that these tenants are not interested in the Irvington site, staff would consult with the Agency Board on direction for the project. Santa Clara should be able to construct and lease an attractive, well-designed retail project with traditional neighborhood shopping center tenants. Unless economic conditions deteriorate significantly, there is low risk that a new project will sit vacant with the introduction of new housing in the area and the redevelopment of approximately 50,000 square feet of currently leased retail space in the existing Monument Shopping Center.

Next Steps: If the Agency approves a resolution to this effect, the Executive Director will enter into an Exclusive Right to Negotiate (ERN) agreement with the preferred developer for a period of 270 days during which time the developer and Agency staff will attempt to:

- Seek community input into the project.
- Develop an environmental remediation strategy approved by the regulatory agencies.
- Evaluate and to the extent possible secure retail tenant interest.
- Develop a site plan for the project.
- Negotiate the business terms of a Disposition and Development Agreement (DDA) that will govern the transaction between the Agency and developer to cause the development to occur.
- Prepare appropriate California Environmental Quality Act (CEQA) and Community Redevelopment Law (CRL) documentation for consideration by the Agency Board in connection with its consideration of a successfully negotiated DDA.

During the term of the ERN, the Agency would be prohibited from negotiating with other prospective developers of the site. Staff would keep the Agency informed during the ERN process regarding the tasks identified above. The Executive Director and developer could agree to extend the ERN agreement.

ENCLOSURE: None

RECOMMENDATION: Adopt a resolution that: (1) designates Santa Clara Development Company as the preferred developer for the Irvington Unified Redevelopment Area because of the development team's relevant development experience with mixed-use development, Brownfield development, historic rehabilitation, infill residential development, and the Fremont market; its demonstrated determination, interest and creativity; and its financial capability, and (2) authorizes the Executive Director to enter into an Exclusive Right to Negotiate Agreement with Santa Clara Development Company for a period of 270 days to negotiate a DDA and to extend the agreement if progress on the negotiation of the DDA merits its extension.